



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **18 VAC 50-22 – Board for Contractors Rules and Regulations**

### **18 VAC 50-30 – Tradesman Rules and Regulations**

### **Department of Professional and Occupational Regulation**

March 9, 2004

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 9-6.14:7.1.G of the Administrative Process Act and Executive Order Number 25 (98). Section 9-6.14:7.1.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

### **Summary of the Proposed Regulation**

The Board of Contractors (board) proposes to raise licensing fees, remove the dishonored check fee from these regulations, and increase the license reinstatement period from 6 months to 12 months.

### **Estimated Economic Impact**

#### **Fees**

The Department of Professional and Occupational Regulation (DPOR) expects that the board's revenues for the 2002-2004 biennium will finish at 3.1 percent less than expenses. Additionally, DPOR anticipates that the board's ending cash balance for 2002-2004 will be negative \$1,214,525.<sup>1</sup> The board proposes to raise fees for licenses under the Board for Contractors Rules and Regulations and the Board for Contractors – Tradesman Rules and

Regulations in order to approximately match their expenses. The Board of Contractors (board) attempts to set each fee to approximately match the cost of regulating each respective function. The board proposes to raise fees by the following amounts:

Contractors

Class C Initial License: increase from \$125 to \$155

Class C License Renewal: increase from \$100 to \$110

Class C License Reinstatement: increase from \$225 to \$260

Class B Initial License: increase from \$150 to \$175

Class B License Renewal: increase from \$135 to \$150

Class B License Reinstatement: increase from \$285 to \$325

Class A Initial License: increase from \$175 to \$200

Class A License Renewal: increase from \$150 to \$165

Class A License Reinstatement: increase from \$325 to \$365

Declaration of Designated Employee: increase from: \$30 to \$40

Change a Designated Employee or Qualified Individual: increase from \$30 to \$40

Tradesmen

Tradesman Initial License: increase from \$75 to \$90

Tradesman License Renewal: increase from \$35 to \$40

Tradesman License Reinstatement: \$75 to \$90

Tradesman Card Exchange Application and Processing: increase from \$20 to \$40

Backflow Prevention Device Worker Certification Card Exchange Application and

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<sup>1</sup> The anticipated -\$1,214,525 cash balance represents -13.3 percent of the expected \$9,162,564 board expenditures in the 2002-2004 biennium (source: DPOR).

Processing: increase from \$20 to \$40

Backflow Prevention Device Worker Certification Card Renewal:

increase from \$35 to \$40

Backflow Prevention Device Worker Certification Card Reinstatement:

increase from \$75 to \$90

Liquefied petroleum gas fitter and natural gas fitter provider initial licensure:

increase from \$75 to \$90

A major factor in the increase in expenses relative to fees collected is a projected 21 percent increase in enforcement costs from the 2000-2002 biennium to the 2002-2004 biennium. DPOR attributes much of this increase to improved public awareness of the agency's enforcement role, leading to increased reporting of unscrupulous behavior by contractors and tradesmen. Increased enforcement can increase public welfare by reducing the incidence of fraud and substandard workmanship encountered by the public. Unscrupulous contractors and tradesmen may lose their licenses and as the increase in enforcement becomes better known, some potentially unscrupulous contractors or tradesmen may refrain from unscrupulous behavior because of increased fear of being caught. If customers of contractors and tradesmen become significantly less likely to encounter substandard work or fraudulent financial practices due to the increased enforcement, then the benefit of increased enforcement may exceed the cost of higher licensing fees for contractors and tradesmen.

The current contractor regulations list a "Dishonored Check Fee" of \$25. The board proposes to remove the dishonored check fee language from the regulations. The board intends to charge individuals who submit dishonored checks the actual fee that the bank charges DPOR. This proposed change will more precisely align the assessed fee with the actual cost of regulation.

## **Reinstatement**

Under the current contractor regulations, licensees may not reinstate their license if more than six months has passed since the expiration date of their license. After six months have passed, the contractor must apply for a new license. If a license is reinstated, then work performed after the license expiration is considered to be performed under license. If the license is not reinstated, then work performed after the license expiration is considered unlicensed work, which can be criminally prosecuted. The board proposes to permit licensees to reinstate their license up to one year after their license has lapsed. Some contractors whose license has been expired for greater than six months, but less than or equal to a year, will benefit from this proposed amendment.

On the other hand, some contractors, particularly those that have been inactive since their license expired, may still prefer to obtain a new license rather than reinstatement. It is actually less costly in fees to apply for a new license than to reinstate a license. Reinstatement of Class A, Class B, and Class C licenses cost \$365, \$325, and \$260, respectively under the proposed regulations. If the pertinent examination has not changed since the contractor initially obtained licensure, the applicant does not have to retake the exam and only pays the initial licensure fee of \$200, \$175, or \$150,<sup>2</sup> for the Class A, Class B, and Class C license, respectively. If the pertinent examination has changed since the contractor initially obtained licensure, then the applicant will have to retake the licensure exam. The exam fees are \$60 and \$40, respectively, for the Class A and Class B licenses. There is no Class C examination. Thus, even if the contractor must retake the exam, the cost in fees will still be more than \$100 less to apply for a new license than to reinstate the current license.<sup>3</sup>

## **Businesses and Entities Affected**

The proposed regulations affect the 84,000<sup>4</sup> contractors and tradesmen licensed in Virginia.

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<sup>2</sup> These are the fees that are currently being proposed.

<sup>3</sup> Calculations: Class A initial licensure fees are  $\$200 + \$60 = \$260$ , versus \$365 for reinstatement; Class B initial licensure fees are  $\$175 + \$40 = \$215$ , versus \$325 for reinstatement; and Class C initial fee is \$150, versus \$260 for reinstatement.

<sup>4</sup> Source: DPOR

## **Localities Particularly Affected**

The proposed increase licensing fees affect contractors and tradesmen throughout the Commonwealth.

## **Projected Impact on Employment**

The proposed rise in licensing fees increases the cost of doing business. The increased cost of doing business may make a small number of potential projects no longer profitable. Thus, the increase in fees may have a small negative impact on employment.

## **Effects on the Use and Value of Private Property**

The proposed fee increases will slightly decrease the value of contractors and tradesmen's businesses.